

EXHIBIT H

THE AUTOMOBILE INDUSTRY

ITS ECONOMIC AND
COMMERCIAL
DEVELOPMENT

BY

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METHODS OF MARKET DISTRIBUTION

I. *Retail and Wholesale Distributive Channels*

WITH the geographically wide market for cars which has existed from the start, and with the pronounced localization of the industry which occurred fairly early in its history, particularly around Detroit and Cleveland,⁹⁷ it was practically impossible for any manufacturer to sell his product direct to the consumer. Instead, the typical procedure was to dispose of his output by selling to dealers in each community, who in turn sold the cars to the public. Sometimes but one set of middlemen was employed—the retail dealers. But more often, especially after a factory had been in operation a year or two, wholesalers in certain centers were also appointed, a large dealer becoming the distributor for an entire territory. Not merely a town or city, but a whole state or even several states, was allotted to such a distributor, who then sold to local retail dealers of his own appointment. As a third possibility for disposing of a part of the product, the manufacturing company itself sometimes established branches in one or several centers, instead of appointing distributors there.

There are thus three main channels through which

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cars may be distributed: factory to retail dealer, factory to distributor (wholesaler), factory to branch. Actually, no one of these three possible systems seems ever to have been employed as an exclusive method, except in one remarkable instance in which all the retail dealers had a direct contact with the factory. Most manufacturers have utilized both factory branches and wholesale distributors, or both wholesale distributors and retail dealers, some of whom may enjoy a direct contact with the factory, or other similar combinations of these three types of intermediary between factory and final buyer.

Five such schemes of market distribution which have actually been employed by manufacturers are depicted in Chart 24. System A, in which branches, wholesalers, and retail dealers are all used, has been one most frequently essayed; systems B and D next most frequently; C next; and E, where the manufacturer disposes of his entire output through local retail dealers, hardly ever.⁹⁸

Though a large number of factories today operate no branch houses whatever, or else operate but one or two such branches, most of them at one time or another have tried the branch system. A questionnaire which the writer circulated in 1926 in order to obtain information regarding marketing practices called for the checking of each year in the history of the company during which it had employed branches, distributors, direct dealers, and requested that in the event that branches had once been employed but later discontinued, the

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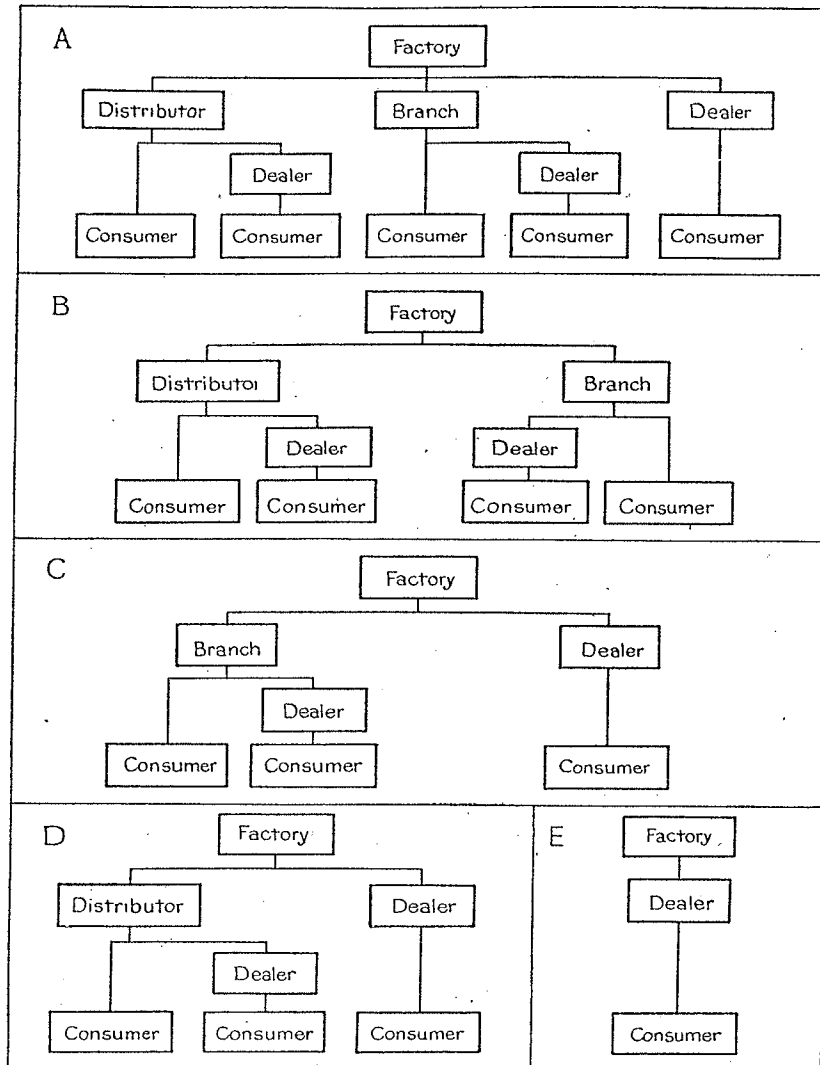


Chart 24: Distributing systems in use by automobile manufacturers.

reasons for such action be stated, if the company cared to confide them.

A number of firms complied with this request, and

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the reply which predominates is interesting. It is simply that it was extremely difficult to find branch managers who proved as competent as did the wholesale distributors who had their own funds invested in their establishments. One would naturally expect the manufacturing company to operate branches if it can; it is a more direct method; it maintains factory contacts with both local dealers and consumers.⁹⁹ Further, the simultaneous operation of several branches ought presumably to reduce sales expense. Yet so great is the single obstacle just mentioned in the way of successful branch operation that comparatively few manufacturers have developed branches at all widely. This is true of passenger cars. In the sale of trucks, certain service and other factors make branch house operation more essential, and there the system enjoys a much wider vogue.

It is worth while to quote from several of the replies, just to indicate the unanimity of experience which prevails. The following excerpts are from separate answers received from executives of five different companies:

The fact is that passenger cars sold by branches have not been generally a success. It is hard to get a manager to handle the company's money, make trades, and so on to compete with a dealer who has to work upon his own investment and protect it.

The retail motor car business has many leaks, and we find it extremely difficult to find managers who do not waste considerable money.

It is difficult to get good managers who have no money invested. If a dealer has a financial interest in his own company,

he is found to be much more satisfactory than a branch manager, who has practically no financial interest in the branch.

. We find in a general way that even a man who makes a "fair to middling" dealer lies down and quits completely when put in charge of a factory branch—where the urge of actual, personal incentive is less strong.

2. *Characteristics of Distribution Through Dealers*

Where the branch house system is not employed, four characteristics of automobile marketing through distributors and dealers are to be noted. The first of these is that the product is never shipped on consignment, but is sold outright. The second is that all factory sales are made for cash. The third is that those intermediaries who are wholesalers invariably sell at retail also. And the fourth is that, though the product is sold outright, the factory may and usually does exercise a large degree of supervision and control over the businesses of both dealers and distributors.

From the beginning, both consumers and members of the trade have often spoken of the automobile dealer's place of business as the "agency" for the particular make of car there handled. But it has in fact never been an agency at all. Though the factory assists the dealer in his sales through advertising, thus assuming some of the responsibility for the "demand creation" function, it entirely gives up title to the product when it puts it in the dealer's hands. The retail dealer (and the wholesale distributor also) stores the goods, assumes the risks involved in carrying them, and finances the transaction. He is not a representative of the manufacturer, in the